

South Ayrshire Council

Annual report on the 2011/12 audit



Prepared for Members of South Ayrshire Council and the Controller of Audit
October 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

Introduction

This report summarises the findings from our 2011/12 audit of South Ayrshire Council. As part of the audit we assessed the key financial and strategic risks being faced by the council. We audited the financial statements and reviewed the council's financial position and aspects of governance, best value, the use of resources and performance. This section of the report sets out key messages arising from our audit.

Financial statements and financial position

We have given an unqualified opinion on the financial statements of South Ayrshire Council for 2011/12.

The council's financial management arrangements have operated effectively during the year. We consider that the council's financial position and its recent track record provide a firm basis to address the challenging financial environment it faces.

The council approved its 2011/12 budget in February 2011 based on a net expenditure of £258.468 million and a Band D council tax level of £1,154. The actual net expenditure for the year was an underspend against budget of some £3.724 million.

The council set a balanced housing revenue account budget for 2011/12. The financial statements show a surplus on the account of £1.754 million for the year. The HRA has continued its pattern of significant underspends against budget.

The council's useable reserves at 31 March 2012 totalled £39.636 million, an increase of £5.308 million on the previous year. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows. Reserves can only be used once and so should not be held to fund revenue expenditure. This would be unsustainable as, at some point, the reserves would be exhausted.

Planned capital expenditure for 2011/12 was £29.648 million. The programme was revised during the year to reflect delays in undertaking capital works and the final spend was £22.053 million. Slippage was noted in a number of general services projects including A70 Corridor Improvements and upgrading to schools. Projects in the housing programme also slipped, including the modernisation of council houses, re-roofing of houses and upgrades to external fabric. The council is required to meet the Scottish Quality Housing Standard by 2015. Continuing slippage in these important areas will jeopardise the achievement of the required standard.

In December 2011, the council set its first three year revenue budget for the periods 2012/13 to 2014/15. This was a significant step forward for the council which had previously only prepared annual budgets. The next step for the council is to further develop the integration of its service and financial plans to ensure that its budgets are consistent with the council's priorities.

The most recent 2012/13 budget monitoring report to 30 June 2012 forecasts an underspend of £0.803 million for general services, before year end accounting allocations and break even for the housing revenue account.

The council does not yet have an agreed corporate asset management plan and long term investment strategy.

The council has made steady progress in its procurement performance since the initial capability assessment in 2009. The council's overall PCA score in 2011 was 39% compared to 19% in 2009.

Best Value, use of resources and performance

The Community Plan and the Single Outcome Agreement require to be revised and agreed. The council await further guidance from the Scottish Government.

The council adopted the "How Good is Our Council" self evaluation framework and has now completed a corporate assessment although this has not yet been reported to members. The Corporate Management Team is considering how to progress self evaluation across all council services.

The council prepared an improvement agenda to address the issues identified in its Best Value report of 2009. The latest update of the Best Value improvement agenda was for the period to 30 September 2011. At that time it was reported that of the 47 improvement actions, 40 were 50% or less complete.

Following the implementation of the computer based performance management system in April 2011, the council is progressing its plans to embed a performance management culture across the council.

The council performance indicators show a picture of steady improvement. There are a small number of indicators which indicate static or deteriorating performance.

The 2012/13 budget spend on roads maintenance is less than that required to maintain the council's roads in a 'steady state', as defined by SCOTS (Society of Chief Officers of Transportation in Scotland). However, as part of the revenue budget process the council allocated additional funding of £1 million, increasing the budget of planned structural maintenance for 2012/13 to £1.641 million. The council's capital planning is done on a three year basis. In our view, a key element to securing a planned improvement in the council's roads network is a long term investment strategy; this remains to be completed.

Outlook

Looking ahead, the outlook for public spending for the foreseeable future remains very challenging, with South Ayrshire Council facing an estimated funding gap of around £11.345 million over the next three years. Receiving no real terms increase in grant funding for the next three years, while maintaining the freeze on council tax and meeting a number of additional expenditure commitments will undoubtedly present further challenges at a time when resources are already

Key messages

under severe pressure. Difficult decisions will need to be made about prioritising resources towards the council's key strategic objectives.

A number of legislative changes will impact on the services the council provide. These include the Welfare Reform Act 2012, the proposal to integrate health and social care and the community planning review.

The changes arising from the Welfare Reform Act include the introduction of the universal credit and consequent eventual elimination of the housing and council tax benefit function currently undertaken by the council. The introduction of the Universal Credit will have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer services.

Closing remarks

The courteous co-operation and assistance extended to us over the past year by members and staff of the South Ayrshire Council is gratefully acknowledged.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of South Ayrshire Council. The nature and scope of the audit were outlined in the Audit Plan presented to the Audit Committee on 22nd March 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of South Ayrshire Council.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that South Ayrshire Council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to Members and the Controller of Audit and should form a key part of discussions with audit committees, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
6. The management of South Ayrshire Council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - Whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the annual governance statement and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the 2011/12 financial statements of South Ayrshire Council, give a true and fair view of the financial affairs of the council and its group, as at 31 March 2012, and of the income and expenditure for the year then ended.

Legality

11. Through our planned audit work we consider the legality of the council's financial transactions. In addition, the Executive Director Corporate Services has confirmed that, to the best of her knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Annual governance statement and remuneration report

12. We are satisfied with the disclosures made in the Annual Governance Statement and the adequacy of the process put in place by the council to obtain the necessary assurances.
13. In 2010/11 the Scottish Government introduced a Remuneration Report into the financial statements. This required the disclosure of salary including bonuses, benefits in kind, compensation for loss of office, pension contributions and benefits for senior officers, senior members and anyone not otherwise included earning over £150,000 per year. Auditors are required to audit part of the Remuneration Report and give a separate opinion within their report on the financial statements on whether it has been properly prepared.
14. From 2011/12, authorities are required to include in the report summary information in respect of exit packages, including compulsory and voluntary redundancy costs, ex-gratia payments

and other departure costs. The Remuneration Report submitted for audit did not include full disclosure of exit package costs. The matter was resolved through discussion with officers and the appropriate disclosures were added to the Remuneration Report for both 2011/12 and 2010/11.

15. We are now satisfied that the Remuneration Report for 2011/12 has been prepared in accordance with Local Authority Accounts (Scotland) Regulations 1985 and the Scottish Government finance circular 8/2011 and includes all required disclosures.

Accounting issues

16. Local authorities are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). We are satisfied that the council prepared the 2011/12 financial statements in accordance with the Code.

Accounts submission

17. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. The unaudited financial statements were available for public inspection and the statutory period for lodging objections passed on 27 August 2012. No objections were made to the unaudited financial statements.
18. The financial statements submitted for audit were complete and prepared to a high standard. Working papers provided in support of the financial statements were, generally, of a good standard. The working papers and cooperation and assistance afforded to the audit team enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2012.
19. The audited financial statements are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited accounts

20. A number of adjustments were made to the 2011/12 unaudited financial statements in accordance with normal audit practice. There were no amendments which impacted on the general fund balance of the council and there are no unadjusted errors in the audited financial statements. A number of presentational amendments were, however, made to improve the disclosures within the financial statements. Some of the key issues from our audit are included in the following paragraphs.

Elimination of interdepartmental recharges

21. A significant adjustment was required to the Comprehensive Income and Expenditure Statement. This was the result of the inclusion of £1.607 million in respect of internal recharges. The comparator figure for the previous year was also adjusted to eliminate a balance of £1.856 million in respect of 2010/11. The effect on the Comprehensive Income and Expenditure Statement was neutral as both income and expenditure are reduced by the same amount.

Investment properties

22. The council's balance sheet includes a line titled "Investment properties" valued in aggregate at £7.952 million. It should be noted that the incidence of rental income does not necessarily mean that the asset is an investment property; it would be deemed an investment property only if the asset is held solely for investment purposes and did not support the service or strategic objectives of the council. Our view is that the categorisation of these properties should be reviewed to ensure that they have been appropriately classified in the balance sheet.

Refer Action Plan No. 1

Heritage assets

23. The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 obliged authorities to account for tangible heritage assets in their balance sheets for the first time in 2011/12. Heritage assets are those assets with historical, artistic, scientific, technological, geophysical or environmental qualities held and maintained principally for its contribution to knowledge and culture. Heritage assets include historical buildings, archaeological sites, scientific equipment of historical importance, civic regalia, museum and gallery collections and works of art. The Code permits valuation by any relevant method.
24. The 2011/12 financial statements include the disclosure of heritage assets in accordance with the Code. As well as disclosing the value of heritage assets for 2011/12, the council also had to reclassify any heritage assets previously included in the financial statements, under another heading, for the prior year to enable meaningful comparison year on year. This resulted in £0.579 million of property, plant and equipment assets being reclassified as heritage assets for 2010/11. This reclassification is a presentational change and therefore does not affect the total value of non-current assets for 2010/11.

Equal pay provision

25. The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay and are dissatisfied with the council's proposed resolution or compensation can elect to have a case heard before an employment tribunal. South Ayrshire Council has received a significant number of claims for compensation. Whilst the council has made provision for the estimated cost to resolve these claims, the ultimate cost to the council remains uncertain and it is likely that resolution of the issue will take some time. As the tribunal process unfolds the extent of the council's eventual liability will become clearer.

Pension costs

26. South Ayrshire Council is a member of Strathclyde Pension Scheme which is a multi-employer defined benefit scheme. In accordance with International Accounting Standard 19 "Retirement Benefits" the council recognised its share of the net liabilities for the pension fund

in the balance sheet. The valuation at 31 March 2012 provided by the scheme's actuaries increased the council's share of the deficit from £43.278 million last year to £89.461 million this year. The valuation of pension fund assets and liabilities is assessed by professional actuaries each year and is dependent on a number of external variables, principally projected rates of return on assets.

27. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. It should be stressed that the pension liability is an estimate made by actuaries at a specific point in time, based on a number of assumptions, most importantly forecasts of investment returns and interest rates.
28. In year payments made to the pension fund by the council comprise employer and employee contributions, the rates for which are set on a triennial basis. At the last triennial valuation the Strathclyde Pension Fund was 97.3% funded and had assets of £11.3 billion. The next valuation will take place on 31st March 2014 with new contribution rates in place from 1st April 2015. The movement in the council's liability in respect of pensions in recent years is set out in the table at Exhibit 1.

Exhibit 1: Pensions liability movement history

| Balance sheet as at: | Liability | Asset | Increase/(decrease) over previous year |
|----------------------|------------------|----------------|--|
| 31 March 2006 | £77.271 million | | |
| 31 March 2007 | £40.941 million | | -47% |
| 31 March 2008 | | £1.949 million | -105% |
| 31 March 2009 | £39.368 million | | 2120% |
| 31 March 2010 | £139.869 million | | 255% |
| 31 March 2011 | £43.278 million | | -69% |
| 31 March 2012 | £89.461 million | | 107% |

Source: South Ayrshire Council annual financial statements

29. The pension reserve, included within unusable reserves in the balance sheet, absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding these benefits. This accounting arrangement ensures that there is no impact on the bottom line of the council's financial position as the valuation is provided at a point in time and does not reflect the in year cost to the council of providing pensions to its employees.

Trust funds

30. The Accounts Commission is empowered and required to appoint auditors to bodies falling within the definitions set out in the Local Government Act (Scotland) Act 1973. In essence, only those trusts having trustees drawn solely from members of South Ayrshire Council are subject to the audit provisions of the 1973 Act. The financial statements submitted for audit included several trusts which did not fall within the Accounts Commission's remit. These trusts have been removed from the council's 2011/12 financial statements. Alternative arrangements

should be made to ensure that these trusts are audited in accordance with any legislative requirements.

Refer Action Plan No. 2

31. South Ayrshire Council has six charitable trusts. Registered charities are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006, meaning a full set of financial statements is required for each trust fund. The Office of the Scottish Charities Regulator (OSCR) has deferred full implementation until 2013/14, allowing the council to rely on its existing disclosures for trust funds in the council's financial statements, supplemented with additional working papers.
32. In a letter of June 2011, to the Executive Director Corporate Services from OSCR, the 2010/11 disclosures of 30 Scottish local authorities are assessed in terms of their compliance with the regulations. South Ayrshire Council is one of only 12 councils judged "above average".

Group accounts

33. To enable the preparation of group financial statements councils are required to consider their interests in all entities, including subsidiary companies, associates and joint ventures. South Ayrshire Council has one subsidiary, the Common Good Fund and six associate entities comprising five joint boards and one joint venture company. The overall effect of inclusion of these group entities is to reduce the net worth by £190.817 million. The impact on the group net worth derives mainly from police and fire pension scheme deficits.

Whole of government accounts

34. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted its consolidation pack to Scottish Government by the deadline of 12 August 2012. The audited return was completed by the audit deadline of 5 October 2012.

Events after the balance sheet date

35. The financial statements present the financial affairs of the council as at 31 March 2012. The unaudited accounts were issued on 28 June 2012 and the audited accounts were authorised for issue 27 September 2012. The council is obliged to reflect events after the balance sheet date which may impact on the financial affairs of the council or its group. The Police and Fire Reform (Scotland) Act 2012 received royal assent 7 August 2012 which means that responsibility for police and fire and rescue services will transfer from local government to central government on 1 April 2013. The council has disclosed a non-adjusting event after the reporting period to reflect this development.

Outlook

36. Following the move to International Financial Reporting Standards (IFRS) based accounts in 2010/11, only minor amendments have been made to the Code of practice on local authority accounting in the United Kingdom (the Code). There are no significant accounting changes included in the 2012/13 Code.

Financial position

37. Audited bodies are responsible for establishing arrangements for the proper conduct of their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
38. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
39. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

General fund

40. In 2011/12, South Ayrshire Council spent some £391.425 million on the provision of public services. Its income totalled £395.969 million, resulting in a comprehensive income and expenditure account surplus of £4.544 million. After adjustments to reflect the difference between the accounting surplus and statutory requirements the increase in usable reserves is £5.308 million.
41. In February 2011 the council set its revenue budget at £258.468 million including expenditure to be financed through specific grants. The budget for 2011/12 was based on Band D council tax of £1,154 per annum and during the year the council used £2.197 million of balances brought forward from the previous year. The budget assumed the use of £1 million of the general fund balance.
42. The year end outturn was a surplus on the provision of services of £4.544 million before the necessary accounting adjustments. After making these adjustments the council reported an underspend of £3.724 million. All general services and the housing revenue account underspent in 2011/12, amounting to a total of £7.062 million. An overspend in property maintenance and construction trading of £1.233 million and various transfers to reserves and provisions resulted in the net underspend of £3.724 million.
43. The most significant underspend in 2011/12 was in children and community services at £5.070 million. This is mainly made up of an underspend of £3.121 million on employee costs and £1.352 million on payments to agencies. The council has attributed these to the time taken to fill vacant posts within the directorate and the reduced number of care packages required. The overspend in property maintenance and construction trading arose following

the loss of a number of major contracts which resulted in a significant reduction in the level of work undertaken by the council's trading operation.

Housing revenue account (HRA)

44. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. In order to fund the achievement of the Scottish Housing Quality Standard by the target date of 2015 the council's strategy on rent levels was that they should increase annually by the retail price index plus 1%. The council departed from this policy in 2011/12; rents were set at the average increase of the previous four years. This calculation produced an increase of 4.8%. Based on this increase, the budget for 2011/12 was approved by the council in January 2011. The budget presented to the committee estimated a total income and expenditure of £25.416 million.
45. The estimation of the detailed income and expenditure items for the forthcoming year(s) is the main reason for the budget process. It is easier to control expenditure at the point of budget preparation than later during the financial year. The budget is, therefore, a key tool in delivering the council's priorities while simultaneously planning a closing financial position which provides a sound basis for future years. Council house rents are a direct consequence of the annual budget setting process.
46. Estimates are subject to error and it can be expected that even well prepared estimates will occasionally turn out significantly different from forecast. However, the general pattern of the council's performance is one of continuing underspends and the accumulation of unplanned reserves. Exhibit 2 provides an analysis of underspends on the HRA over the past three years.

Exhibit 2: HRA underspends 2009/10 - 2011/12

| Cost | HRA three year underspends/(overspends) | | | |
|---------------------|---|---------|---------|-------|
| | 2009/10 | 2010/11 | 2011/12 | Total |
| | £'000 | £'000 | £'000 | £'000 |
| Employee | 498 | 670 | 679 | 1,847 |
| Property | 971 | 724 | 818 | 2,513 |
| Supplies / services | 113 | 118 | 51 | 282 |
| Transport | 0 | 4 | 23 | 27 |
| Administration | 181 | 140 | 130 | 451 |
| Support services | 63 | 121 | (73) | 111 |
| Agency payments | (100) | (86) | (12) | (198) |
| Transfer payments | 18 | (3) | 47 | 62 |
| Financing | (341) | 1,709 | (52) | 1,316 |
| Totals | 1,403 | 3,397 | 1,611 | 6,411 |

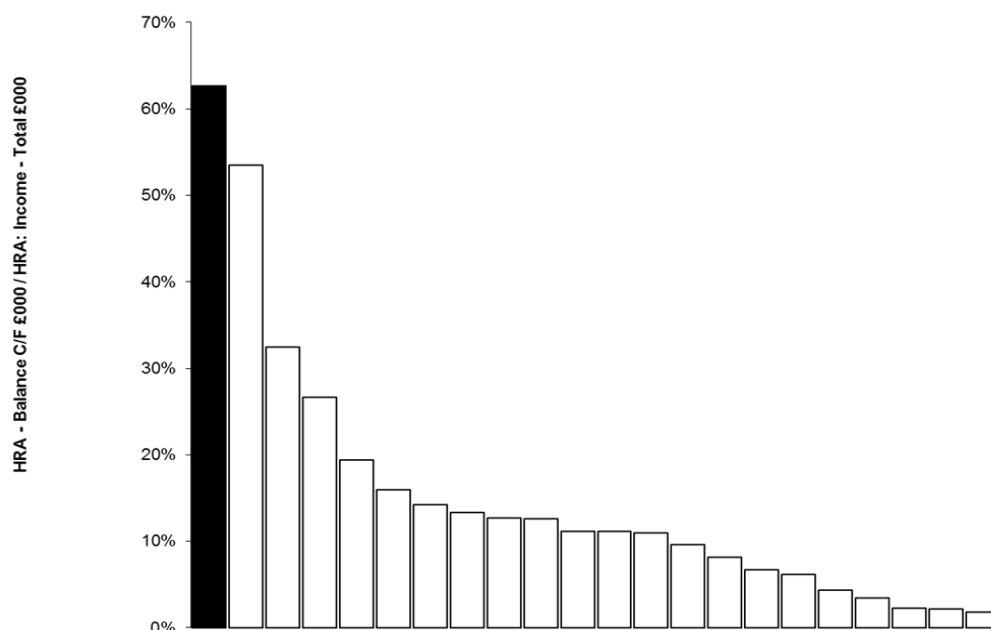
Source: South Ayrshire Council budget monitoring reports

47. Given the level of underspending of budgets, officers and members should consider whether the service is delivering the services implicitly agreed at the setting of the annual budget or whether the budget setting process is unsound. In this respect, we note that one reason for the significant underspend in employee costs in the absence of any allowance for staff turnover in setting the budget for employee costs. This, in our view, represents an inbuilt underspend in the opening budget.

Refer Action Plan No. 3

48. The council's housing revenue account balance increased by £1.754 million in 2011/12 to £15.714. Exhibit 3 compares the ratio of the HRA reserve to total HRA income for Scottish councils; South Ayrshire Council is highlighted in black.

Exhibit 3: Ratio of HRA reserves to total HRA income 31 March 2012



Source: Scottish councils financial statements 2011/12

49. Of the balance carried forward the council has earmarked £11.732 million for specific capital and revenue expenditure. The earmarked balance includes £1.500 million as a minimum working balance. This is an unusual presentation. In our view, this £1.500 million should be included as part of the HRA unallocated reserve. A further £0.550 million has been "earmarked to fund emergency repairs "potentially arising as a result of severe weather". It is our view that a general reserve exists for the purposes of meeting the cost of uncertain events, potential severe weather falls into that category. Both of these balances are, in our view, part of the general unallocated HRA reserve. Officers and members should reconsider the earmarking of these amounts.

Refer Action Plan No. 4

50. Exhibit 4 shows four identifiable earmarked amounts in reports made to members in respect of outturns on the HRA for the three years 2009/10 to 2011/12.

Exhibit 4: HRA three year sample of earmarked reserves

| | 2009/10 | 2010/11 | 2011/12 |
|---------------------------------------|---------------|---------------|---------------|
| | £'000 | £'000 | £'000 |
| CFCR* | 5,502 | 6,380 | 7,056 |
| Planned maintenance carried forward | 298 | 358 | 323 |
| Maisonettes North Ayr | 4,964 | 3,561 | 3,189 |
| Riverside House | 204 | 529 | 572 |
| Total | 10,968 | 10,828 | 11,140 |
| * Capital Funded from Current Revenue | | | |

Source: South Ayrshire Council budget monitoring statements

51. The position is virtually static. The 2012/13 budget includes a further £5.324 million CFCR. At paragraph 62 we comment further on the delivery of the council's capital investment programme. Officers and members should consider how and when the projects, represented by the earmarking of the amounts at exhibit 4, will be delivered.

Refer Action Plan No. 5

Statutory trading organisation (STO)

52. The Property Maintenance and Construction STO of the council delivers maintenance services in respect of council buildings, including council dwellings. The council undertook, during 2011/12, an options appraisal study into potential models for the future delivery of repairs and maintenance services. The options appraisal comprised background and performance information, an initial assessment of eight options and a more detailed appraisal of three options.
53. At its meeting of 8 March 2012 the council agreed the recommended option, that the service should be retained in-house and charges for maintenance should be made at cost. Charging at cost takes the service out of the statutory requirement to meet financial objectives. There will no longer be a requirement that the property maintenance and construction service operates as a statutory trading account from 2013/14 onwards. The council will need to have arrangements in place to ensure that it is satisfied that the quality and cost of provision is satisfactory and that governance and internal control arrangements are operating to a high standard.

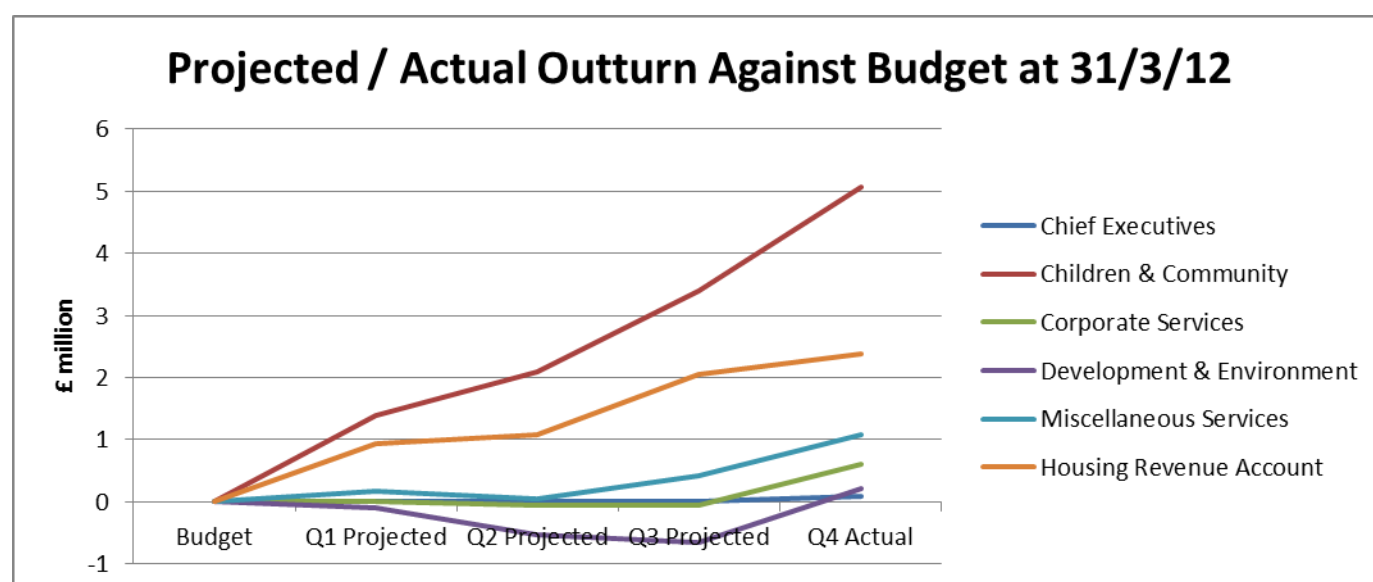
Budgetary control

54. The annual budget is a key tool in delivering the council's priorities while simultaneously planning a closing financial position which provides a sound basis for future years. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax charges, rents and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management. In practical terms, budget

monitoring involves examining periodic monitoring reports, obtaining explanations based on underlying activity and taking action to tackle any significant variances. Management and members must be alert to the possibility that underspent budgets may indicate structural problems in the underlying budget setting process.

55. Quarterly budget monitoring reports are submitted to the Leadership Panel. We analysed reports submitted during the course of 2011/12 and the graph at Exhibit 5 shows the projected outturn for each department reported to members in the quarterly budget monitoring reports. The starting point is the break even budget position and quarter 4 represents the actual year end outturn. With the exception of Chief Executives Office and Development and Environment, all budget heads have outturned with significant underspends. The graph at Exhibit 5 illustrates how much the underspend projection increased each quarter and how this differed from the final reported position.

Exhibit 5: Underspend projections 2011/12



Source: South Ayrshire Council budget monitoring statements

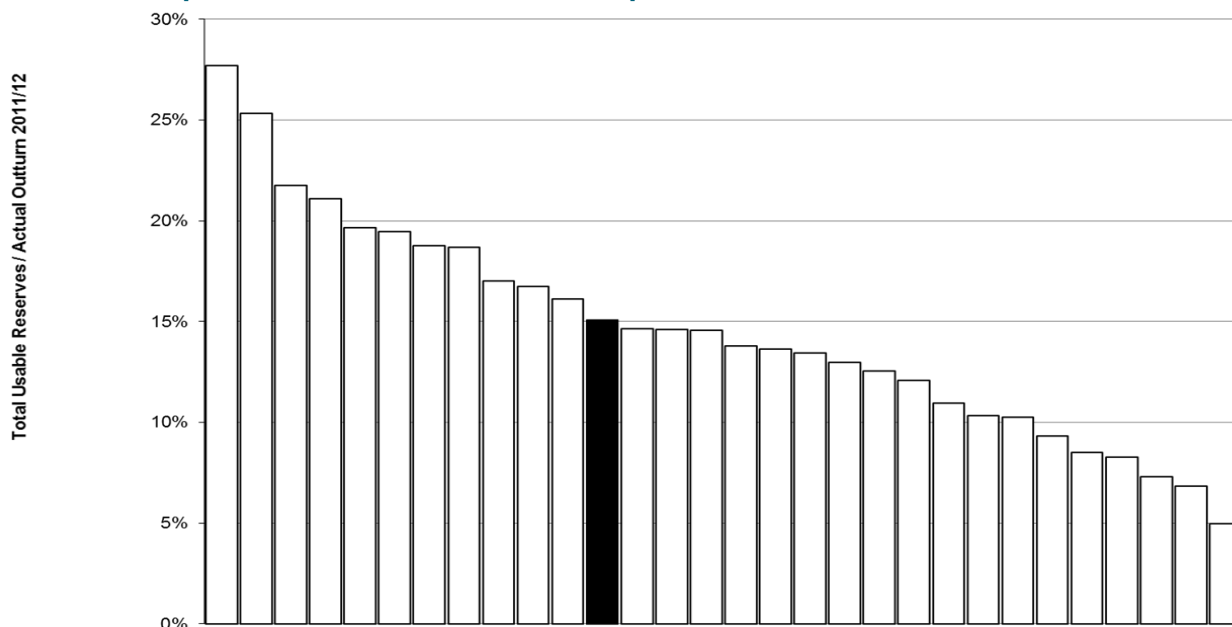
56. Members received a year end monitoring report in June 2012 describing the 2011/12 outturn position. Members should assure themselves that explanations for underspends are based on an analysis of underlying activity and that the delivery of agreed service levels have not been compromised. While we welcome the fact that the council is not overspending its budget and has managed to build healthy usable reserves, there is a risk that service delivery and the local economy may be adversely affected by unplanned reductions in spending.

Financial position

57. The general fund reserve has no restrictions on its use. There is no specified minimum level of reserves that an authority should hold; it is the responsibility of the section 95 officer to advise on the level of reserve to be held. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows. Reserves can only be used once and so should not

be held to fund recurring revenue expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. South Ayrshire Council's (highlighted in black) useable reserves now stand at £39.636 million. Exhibit 6 shows the comparative picture across Scotland.

Exhibit 6: Proportion of reserves to revenue spend Scotland



Source: Scottish councils' financial statements 2011/12

- 58. The council has made significant progress in improving its financial position since 2007. It has met the challenge of identifying opportunities to reduce costs and maximise income and has now built up a reasonable reserve base. Prudent use of reserves will be essential if the council is to continue to build on the progress made to date.
- 59. Exhibit 7 shows the balances in the council's useable reserves at 31 March 2012 compared to the previous year. Funds include a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing assets and an insurance fund to absorb insurance premiums and payments in respect of uninsured losses. The council's useable reserves at 31 March 2012 totalled £39.636 million, an increase of £5.308 million on the previous year.

Exhibit 7: South Ayrshire Council useable reserves

| Description | 31 March 2012 | 31 March 2011 |
|--------------------------|---------------|---------------|
| | £ million | £ million |
| General Fund | 18.026 | 15.302 |
| Housing Revenue Account | 15.714 | 13.960 |
| Capital Grants Unapplied | 1.051 | 0.195 |
| Capital Receipts Reserve | 0 | 0.133 |
| Repair and Renewal Fund | 4.420 | 4.280 |
| Insurance Fund | 0.425 | 0.425 |
| Capital Fund | 0 | 0.033 |
| Total | 39.636 | 34.328 |

Source: South Ayrshire Council 2011/12 financial statements

60. Of the £18.026 million general fund balance, £9.232 million has been earmarked by the council for specific purposes. Included within the earmarked balance is £0.537 million for the schools PPP project, £6.552 million for specific projects in 2012-13, £0.843 million for delivering the council's affordable homes strategy and £1.300 million funding 2012-13 budgeted service expenditure. This leaves an unallocated balance of £8.794 million. Previous external auditors were highly critical when the council reported a cumulative deficit on the general fund of £0.507 million as at 31 March 2007. The council recognised that this was not a viable position and agreed to achieve at least £2.000 million of uncommitted general fund reserves by 31 March 2010. The council reported £7.500 million of uncommitted general fund reserves as at 31 March 2010 and further committed to achieving uncommitted reserves of £8.000 million by 31 March 2013.

Capital investment and performance 2011/12

61. Capital expenditure for 2011/12 totalled £22.053 million. Spend on the housing programme was some £11.818 million and on the general services programme was £10.235 million. The housing programme focused mainly on the construction of 68 new build council houses and the replacement of internal components in existing houses. The general services programme was concentrated on the refurbishment of three primary schools, delivery of various ICT projects and expansion of the cycle path network.
62. The council approved its housing capital programme for 2011/12 in February 2011. The budget was set at £15.477 million. Throughout the year adjustments were made to the programme to reflect newly profiled expenditure on projects. This resulted in a revised budget of £14.341million. Actual spend on the housing capital programme amounted to 76% of the original programmed expenditure. Slippage was noted in a number of projects including the modernisation of council houses, re-roofing of houses and upgrades to external fabric. The

council is required to meet the Scottish Quality Housing Standard by 2015. Continuing slippage in these important areas will jeopardise the achievement of the required standard. A significant amount of unspent budget has been carried forward to the 2012/13 programme.

63. At the end of period three (to 30 June) of the current year the monitoring report submitted to the Leadership Panel in September noted the increase in the housing capital programme from £14.328 million to £18.630 million for 2012/13. The report also noted that the projected slippage was £0.442 million. The 2012/13 plan includes significant amounts of work carried forward from previous years' programmes; resources will have to be applied effectively to ensure that such an extensive programme can be delivered. Management should consider whether adequate resources are available to deliver the council's capital programme.

Refer Action Plan No. 6

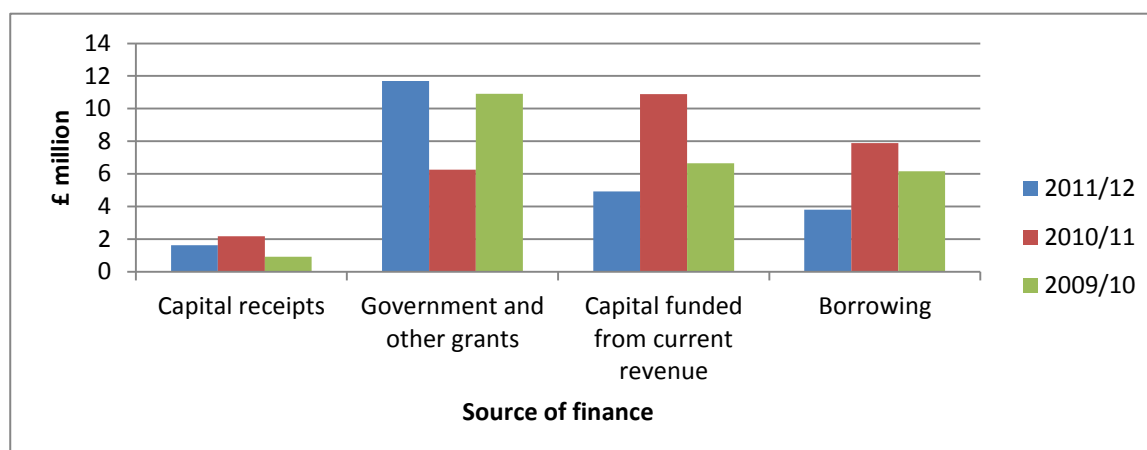
64. The council approved its general services capital programme for 2011/12 in February 2011. The budget was set at £14.171 million. Throughout the year adjustments were made to the programme to reflect newly profiled expenditure on projects. This resulted in revised a budget of £12.019 million. Actual spend on the general services capital programme amounted to 72% of the original programmed expenditure. Slippage was identified in a number of projects including A70 Corridor Improvements and upgrading to schools. A significant amount of unspent budget has been carried forward to the 2012/13 programme.

65. At the end of period three (to 30 June) of the current year the monitoring report submitted to the Leadership Panel in September noted the increase in the general services capital programme from £12.980 million to £17.104 million for 2012/13. The report also noted that the projected slippage was £0.702 million. The 2012/13 plan includes significant amounts of work carried forward from previous years' programmes; resources will have to be applied effectively to ensure that such an extensive programme can be delivered. Management should consider whether adequate resources are available to deliver the council's capital programme.

Refer Action Plan No. 6

66. Funding for the council's capital programmes is derived, in the main, from central general and specific grant, capital receipts and borrowing. The chart at Exhibit 8 shows the sources capital expenditure funding for the period 2009/10- 2011/12.

Exhibit 8: Sources of capital programme finance

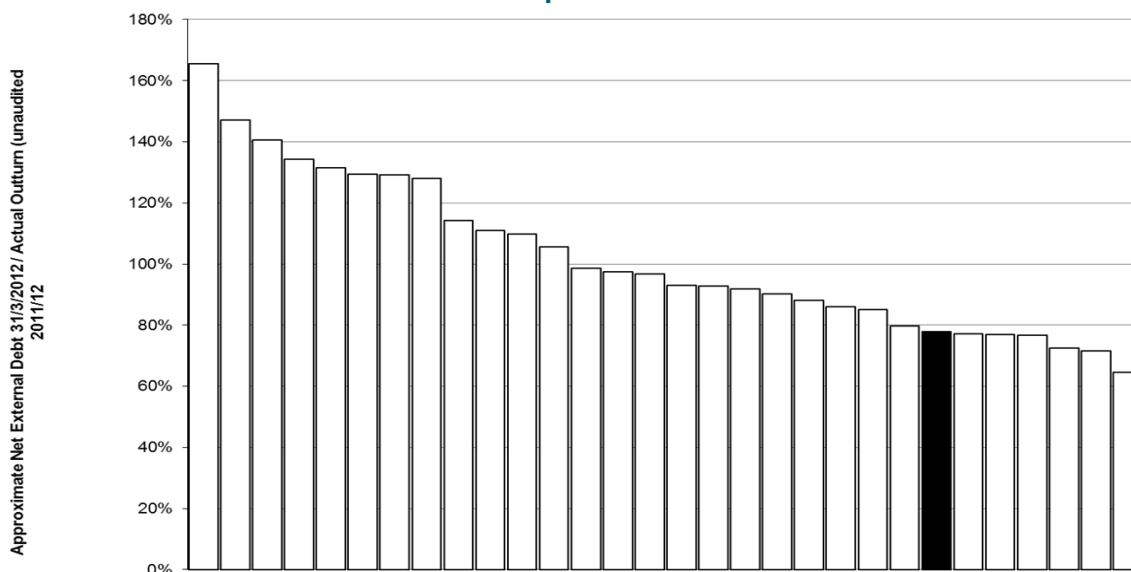


Source: South Ayrshire Council annual financial statements

Treasury management

67. As at 31 March 2012, South Ayrshire Council held cash and temporary investments totalling £40.299 million an increase of £12.680 million on the previous year. We reviewed the position as part of our audit of the financial statements and concluded that the current level of investment is largely attributable to the usable reserves held on the balance sheet. Surplus funds are invested in accordance with the council's treasury management policy which includes UK based banks and local authorities.
68. In 2011/12 the council borrowed an additional £5 million to finance capital expenditure. This resulted in an overall net increase in borrowing of £4.858 million to £177.446 million. Where possible the council has sought to use internal resources to meet financing requirements in the short term, until borrowing is available at favourable rates. This approach demonstrates a prudent approach by the council as it continues its programme of capital investment while ensuring that this is funded cost effectively.
69. The average interest rate on investments improved marginally in the year from 0.885% in 2010/11 to 1.077% in 2011/12. The council received £0.536 million in investment income in 2011/12, compared to the £0.441 million received in 2010/11. While long term borrowing rates are also low, the council has a significant proportion of its historical debt at fixed rates resulting in an average cost of borrowing over the year of 5.486% compared to 5.573% in 2010/11.
70. Analysing net external debt as a proportion of net revenue spend gives an indication of the relative indebtedness of the council. The graph below shows the net external debt as at 31 March 2012 as a proportion of the actual outturn for the year for all councils in Scotland. South Ayrshire (highlighted in black) fares well in this comparison with 78p of net borrowing for every £1 of taxation and grant income, compared to the highest council with over £1.60 of borrowing for every £1 of taxation and grant income.

Exhibit 9: Net external debt to revenue spend Scottish councils



Source: Scottish councils' financial statements

Provision for Icelandic bank losses

71. In October 2008 the Icelandic banks, Landsbanki Islands hf, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The council had two deposits amounting to £5 million with Landsbanki at the time of its entry into administration. Following a decision by the Supreme Court of Iceland, South Ayrshire Council's status as a preferred creditor has been confirmed. Landsbanki Islands hf is in winding-up proceedings in accordance with Icelandic law. The Winding-Up Board has provided information which indicates that the expected quantum of recovery will be close to 100%. The council should continue to monitor the situation in respect of expected recovery levels and ensure the appropriate accounting entries are made in the financial statements.

Financial ratios

- 72. A set of financial ratios has been developed by the CIPFA Directors of Finance working group. The ratios are intended to assist stakeholders in evaluating the council's financial sustainability and the affordability of financial plans. The ratios will also provide stakeholders with a means of appraising the effectiveness of councils' financial management arrangements. The council has not incorporated any financial ratios in its 2011/12 financial statements.
- 73. Audit Scotland has compiled the financial ratios for all councils' in Scotland, and a selection may be published in the Local Government Overview report for 2011/12. Some of the key ratios have been included in this report.

Financial planning to support priority setting and cost reductions

74. In common with other public sector bodies the council faces a period of financial constraint. It faces an estimated budget gap over the period 2013/14 to 2014/15 of £11.345 million and current estimates predict a total budget gap of some £25 million to 2016/17. Management are using these forecasts to plan the savings required in future years and efficiency measures are being agreed during the course of the year to minimise delays in the budget setting process. In December 2011 the council approved 2012/13 budget along with indicative budgets for 2013/14 and 2014/15. This was a significant step forward in the council's financial planning as hitherto only single year budgets had been prepared.
75. In September 2012 a report, "Raising our ambitions for South Ayrshire Council", was submitted to the council. This set out the strategic overview of the council's organisational transformation agenda and its strategic priorities going forward. The report acknowledges the likely impact of public sector reform, changing local demographics and the projected financial position. A number of "key organisational drivers" are identified, including:
- Expand partnership working
 - Adopt sustainable models and practices
 - Rationalise assets
 - Maximise shared services
 - Utilise performance results to drive improvement

It is intended that progress will be regularly reported to elected members. In the initial stages, this will be eight weekly reporting to the Leadership Panel reinforced by scrutiny of progress reports.

Asset management

76. The council's balance sheet as at 31 March 2012 discloses an aggregate valuation of some £655 million in respect of non-current assets. It is important that the council, as custodian of a significant public asset base, is able to justify its holding in terms of best value and efficient and effective service delivery. A corporate asset management plan is intended to provide a strategic approach to the management of a council's assets and how they will be deployed in meeting its corporate objectives. A corporate asset management plan also better facilitates rational and informed asset decision-making, based on identified needs and available funding. The council does not have a corporate asset management plan, however, officers have advised that a draft is to be submitted to the Leadership Panel on 6 November 2012.
77. To ensure maximum benefit is obtained from asset management planning, alignment with capital funding and programming is key. The council's capital planning is done on a short term basis. Management and members should reflect on the merits of taking a more strategic approach to capital programming in the council.

Refer Action Plan No. 7

Workforce reduction

78. The council is progressing a number of initiatives to reduce the cost of providing services through reconfiguring the workforce. These include post deletions, reviewing the total hours being worked in many services, reviewing work patterns of employees and reducing the number of sessional and long term temporary employees. There have been no compulsory redundancies to date.
79. Workforce reduction is a key part of the council's plan to reduce expenditure to meet the reductions in funding in the coming years. In 2011/12 the council reduced its workforce by 107 employees. This was done through a combination of early retirement and voluntary redundancy. The total revenue cost to the council was £1.238 million. This compares to a reduction of 58 employees at a cost of £0.430 million in 2010/11.
80. Without careful planning, staff reductions can lead to increased overtime or use of agency staff. The council is aware of this risk and is monitoring expenditure on overtime and agency staff to ensure that the changes to the workforce profile do not have an adverse effect on costs. The council has also committed to reducing the overtime budget and has introduced controls over the use of consultants and agency staff.

Partnership working

81. The local area network (LAN) of scrutiny partners for the council, conducted a shared risk assessment (SRA) and produced the assurance and improvement plan (AIP) 2012-15. The AIP recorded that the council planned to refresh its community plan to give an overarching vision, for both the council and the partnership, following the local government elections in May 2012. The council has reported in its annual performance report to the Leadership Panel that this refresh is now underway. The council intends to consult on the proposed plan at the end of 2012 and has set a target of April 2013 for the implementation of the final plan.
82. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth, the Accounts Commission has led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by community planning partnerships. This approach is being piloted in the autumn of 2012 and will be rolled out across the sector thereafter.

Shared services

83. In April 2006, a "pan-Ayrshire Group" was formalised with the neighbouring Ayrshire councils and NHS Ayrshire and Arran. The group's remit is to consider and progress the potential for improved effectiveness and efficiency through alternative models of service delivery through shared services across the Ayrshire.
84. The council is involved in the delivery of shared services in a number of areas. The pan-Ayrshire Civil Contingencies Team has been in operation for some time providing emergency planning services. Since October 2005 an Ayrshire environmental health out-of-hours noise team has been operating to tackle noise nuisance throughout Ayrshire. Since April the three Ayrshire councils' Social Work Out Of Hours Response Service has been

operating as a unified service operating from Crosshouse Hospital. Also this year the Ayrshire and Arran Shared Tourism Team became operational.

85. The three Ayrshire councils are also at an advanced stage in developing a business plan for a shared roads service.
86. The council, in collaboration with neighbouring Ayrshire councils, had been seeking to introduce a Pan Ayrshire Regulatory Service (PARS). Preparatory work on this project had been underway for a number of years, however, in May 2012 the three Ayrshire councils announced that the project would not be going ahead due to the lack of savings likely to be generated from the project and the associated statutory complexities in integrating the three services.
87. The Ayrshire Joint Strategic Waste Management Project Group was established to procure a residual waste management solution to comply with the EU Waste Directives and the Scottish Government's Zero Waste agenda as they apply to the three Ayrshire councils. Much preparatory work had been done, to the extent of site investigation. Following the withdrawal of North Ayrshire Council from the project it is now unlikely that the two remaining councils can operate a viable residual waste disposal facility. The council is now examining other options.

Procurement

88. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. So far, three rounds of PCA assessment have been completed. Local authorities need to achieve a PCA score of 25% or above in order to obtain a 'conformance' rating. South Ayrshire Council was subject to its first PCA in October 2009 and achieved a non-conforming score of 19%; in its second PCA the council achieved a score of 29%. In the most recent PCA (December 2011) the council scored 39% which is well into the conformance rating. The council is commended on the progress it has made over the past three years. The council should now build on the solid foundations that it has in place to achieve further improvement.

Refer Action Plan No.8

89. The council has reported procurement savings of £0.163 million in its 2011/12 annual efficiency statement. This information has not been subject to audit.

Outlook

Revenue and capital budgets 2012/13

90. The council set its revenue and capital budgets for 2012/13 to 2014/15 on 15 December 2011. The revenue budget set net expenditure at £267.074 million and includes the planned use of £1.3 million of the general fund balance. The budget delivered a freeze on council tax in line with Scottish Government funding requirements and required departments to contribute to payroll management savings of £2 million across the council. The capital programme 2012/13

to 2014/15, planned expenditure of £11.711 million, £15.237 million and £16.772 million respectively.

Budget monitoring 2012/13

91. The council's first budget monitoring report for 2012/13 was presented to members in September 2012 and covered the period from 1 April 2012 to 30 June 2012. Early indications of actual performance against budget show a projected year end underspend of £0.803 million for general services and break even for the housing revenue account. Overall the council expects to achieve an unallocated general fund reserve of £8.868 million at 31 March 2013 and an unallocated accumulated surplus of £1.857 million on the housing revenue account.

Financial forecasts beyond 2012/13

92. The financial challenges facing the Scottish public sector are well documented. Public bodies face deep and prolonged cuts in funding. Real terms reductions in central funding for all local government bodies are inevitable, meaning that recurring savings in overall net expenditure will need to be found from base budget allocations. Use of reserves in the short term may bridge the gap between expenditure needed to maintain services at existing levels and available funding, however, this does not provide a long term solution.
93. The council is now preparing three year revenue and capital budgets. These remain indicative until final settlements are known.

Future risks and developments

94. A number of legislative changes will impact on the services the council provide. These include the Welfare Reform Act 2012, the proposal to integrate health and social care and the community planning review.
95. The changes arising from the Welfare Reform Act include the introduction of the universal credit thus eliminating the housing and council tax benefit function currently undertaken by councils. In future, the direct payment of housing benefit to claimants entails the risk of higher levels of rent arrears and ultimately higher levels of write offs.
96. The Scottish Government is currently consulting on proposed changes to the way health and social care services are provided. If the proposed changes are implemented, responsibility for service delivery will move to new Health and Social Care Partnerships.
97. The community planning review which began in January 2012 aims to consider how effective community planning can contribute to public sector reform. In particular, it seeks to reduce duplication, improve outcomes for communities and strengthen joint working. The Single Outcome Agreements to be implemented for 2013/14 will build on these principles.

Governance and accountability

98. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed.
99. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
100. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption
101. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

102. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda.
103. The local government elections in May 2012 resulted in a change to the administration of the South Ayrshire Council. It is now a Conservative/Labour administration having previously been a Conservative/SNP administration. The council has continued with its previous executive/scrutiny panel political decision making structure.
104. South Ayrshire Council has delegated executive decision making powers to a Leadership Panel consisting of seven members each of whom has responsibility for a specific portfolio. The Leadership Panel currently comprises four Conservative and three Labour members and is chaired by the Leader of the council. The Leadership Panel, under powers delegated by the full council, takes all key strategic and service delivery decisions although the review and approval of annual revenue and capital budgets and the setting of council tax are reserved for the full council.
105. The council operates a Scrutiny / Governance Management Panel, the remit of which includes the annual review of council's Delivering Good Governance Framework. The council has three standing scrutiny panels, aligned to Leadership Panel portfolios, whose main function is to call in and review decisions of the Leadership Panel as necessary. One of the standing

scrutiny panels, the Corporate and Community Planning Standing Scrutiny Panel, convenes alternately as the council's audit committee. This panel's remit includes the responsibility for receiving internal and external audit reports and audit plans, as well as overseeing risk management and treasury management arrangements.

106. During the year under review we attended a number of council meetings and Corporate and Community Planning Standing Scrutiny Panel meetings. We found that these are well supported by members, with good attendance and, in general, constructive challenge to officers on the audit reports submitted.
107. The May 2012 elections saw the election of several first time councillors. Induction training was provided immediately following the election. Generic and panel specific training was provided for both new and returning members following the summer recess.

Internal control

108. While external auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by an assessment of risk and the activities of internal audit. Accordingly, we conducted a review of the council's accounting and internal control systems.
109. The results of our review were reported to the Corporate and Community Planning Standing Scrutiny Panel in September 2012. No material control weaknesses were identified. The review did, however, identify a number of areas where we considered that enhancement to internal control procedures was desirable. Officers have agreed an action plan and improvements have already been introduced, or will be implemented in accordance with an agreed timetable.
110. Following well publicised cases of public sector employees committing significant frauds via corporate credit cards, appointed auditors were required to review arrangements in each audited body. We found that each directorate of the council has access to a corporate credit card for purchases where normal procurement arrangements are impracticable. Our review found that, while the overall spend on these cards was relatively modest, controls and purchasing arrangements could be improved.

Implementation of Oracle

111. The council has been in the process of implementing the Oracle e-financials system since 2003. Previous external auditors have commented on the many difficulties encountered during implementation. Various deadline completion dates have slipped across the years. The council still relies on the previous Cfacs ledger as an intermediate system to feed into the Oracle ledger. We are advised that following the testing and parallel running of payroll feeders, the council has, within the last few weeks, successfully run the first live feed into Oracle. We will continue to monitor progress in 2012/13.

Refer Action Plan No. 9

Internal audit

112. Internal audit provides an independent appraisal service to management, by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the council's internal audit arrangements against the CIPFA Code of Practice for Internal Audit in Local Government 2006. We concluded that the council's Internal Audit Service operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom.
113. Where possible, to avoid duplication, we have placed reliance on the work performed by internal audit. We have been able to take necessary assurance from the work carried out in relation to specific controls operated in the collection of non-domestic rates income, cash income and banking, main accounting, treasury management and housing and council tax benefits. Internal audit also played a lead role in reviewing the council's annual submission of statutory performance indicators.

ICT data handling and security

114. The council's ICT section deals with the management of the local users and ICT resources, requests for services and business continuity, as well as managing ICT projects and information security for the council.
115. The council manages ICT development through its ICT Strategy group. The strategy group are currently monitoring progress on a number of fronts, including the wireless wide area network roll-out, contact centres progress and the opportunity for using social media in respect of communication with customers, staff and school pupils. Policies and standards are also being developed in respect of information security incident management, information classification and encryption and data sharing. These are interlinked activities which contribute significantly to the full development of data security processes for the council.
116. Our review of the controls in operation within the council in the management of ICT found a number of areas of good practice. Particular strength has been noted in the management of user access, business continuity arrangements, asset management and service desk provision.
117. Challenges facing the council include management of the information security arrangements where collaborative data sharing arrangements are in place. With the introduction of the new data centre, an update and improvement to these business continuity arrangements is required.
118. A major challenge facing councils is the need to achieve potential cost savings through opportunities for shared IT developments. In June 2011, John McClelland published a review of ICT in the public sector in Scotland. McClelland describes a state of fragmentation in which organisations have local plans and strategies and the prevalent model is one of "standalone self-sufficiency". Among the report's recommendation that a "standalone and "self-sufficient" operating mode is no longer affordable and should commit to an era of sharing in ICT that will not only offer better value but also still meet the needs of individual organisations and their customers".

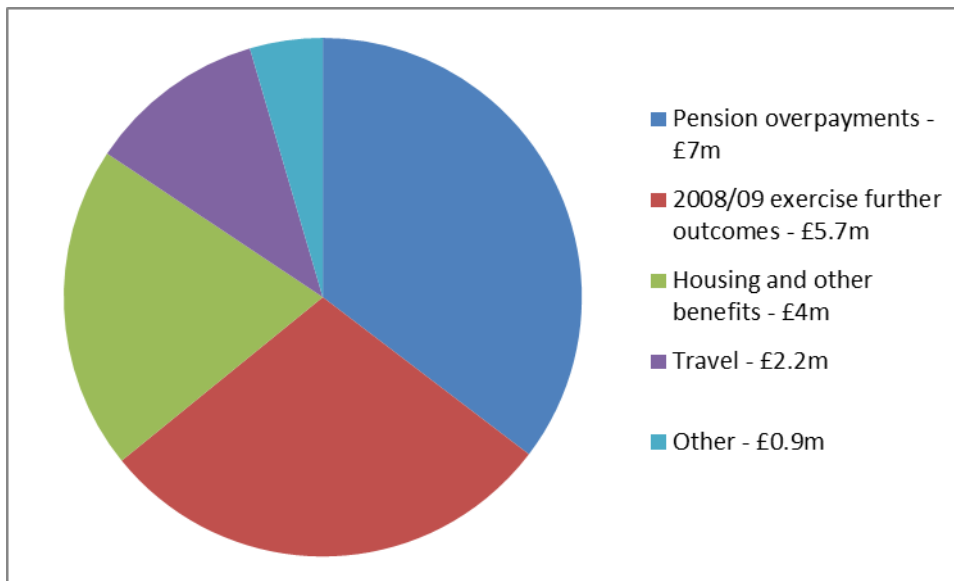
119. Within Ayrshire there is a track record of working in collaboration in the provision of shared services through Shared Services and Strategic Alliance - Joint Working in Ayrshire. The group has discussed the possibility of sharing IT services. However, in the absence of adopting a shared service approach, the three Ayrshire councils and NHS Ayrshire and Arran Health Board have set up a joint working group which will seek opportunities for collaboration in the development and procurement opportunities.
120. Although IT services are not part of a shared service at this time it is recognised that there may be ICT requirements associated with other potential shared services if planned savings and services efficiencies are to be achieved.

Prevention and detection of fraud and irregularities

121. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
122. South Ayrshire Council has implemented appropriate arrangements to help prevent and detect fraud, corruption and inappropriate conduct. These arrangements include: an anti-fraud and corruption policy and response plan; a whistleblowing policy; codes of conduct for elected members and staff; and defined remits for committees.
123. During 2011/12 the council undertook two separate investigations into irregularities within its direct services operations. A number of disciplinary hearings were held and sanctions, including dismissals, were imposed on a number of employees. The council reviewed its procedures and implemented new policies and practices. The council should ensure that its monitoring arrangements are sufficient to allow identification of potential problem areas at an early stage. We are aware of a further significant case of fraud which was investigated by internal audit and is now in the hands of the police.

NFI in Scotland

124. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant outcomes for Scottish public bodies (£19.8 million during the 2010/11 NFI cycle and £78 million cumulatively up to end March 2012). If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
125. The data supplied by all participating bodies for NFI 2010/11 returned 287,559 matches. Some 33,846 (11.8%) of matches were categorised as having a higher risk of fraud or error (matches recommended for investigation). Exhibit 10 shows the cumulative national savings made as a result of the National Fraud Initiative.

Exhibit 10: Cumulative NFI national saving

Source: *The National Fraud Initiative in Scotland, Audit Scotland, May 2012*

126. South Ayrshire Council's NFI data returned a total 2,302 matches, of which 696 (30.2%) were recommended for investigation. Individual bodies determine which matches and the number of matches to investigate. The council completed its match investigations on schedule. No frauds were identified and only one error was identified from the exercise.

Housing and council tax benefits

127. Audit Scotland assumed the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in 2008. The risks to South Ayrshire Council's benefits service were assessed in August 2009 and a detailed report was issued which included agreed improvement actions. The benefits service was assessed as low risk and consequently the follow-up review was deferred until early 2013/14.
128. The provisions of the Welfare Reform Act 2012 will be phased in over the next five years. The Act sets out in law fundamental changes to the welfare system aimed at improving the benefit system to reduce the dependency on welfare, improving incentives to work and reducing overall spend. This includes the introduction of a single working age benefit 'Universal Credit' which draws together the existing elements of means test support for employment, housing and child care into a single award that is paid direct to the claimant rather than the landlord. In common with other councils, South Ayrshire Council will face significant challenges in implementing welfare reform changes. The introduction of Universal Credit will also have a significant impact on councils' strategies and plans in areas such as housing, social services finance, ICT and customer service. The council's ability as an organisation to successfully implement these reforms will directly affect its capacity to support residents through these changes. We will keep the council's response to the forthcoming changes under review in 2012/13.

Refer Action Plan No. 10

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

129. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.
130. The council has assessed its own governance arrangements against the CIPFA/SOLACE guidance: Delivering Good Governance in Local Government. The council reviews its local arrangements annually and the last review concluded that the council continues to have effective arrangements in place to protect its interests and promote good governance.
131. The council reviewed its standing orders and financial regulations during 2011. Training for elected members and officers on the impact of the 2010 Bribery Act has been provided. The Act places an obligation on the council to ensure robust anti-corruption arrangements are in place. We have concluded that the arrangements in South Ayrshire Council are satisfactory and we are not aware of any specific issues that we should identify in this report.

Roles and relationships

132. In August 2010 the Accounts Commission published a report: How councils work: an improvement series for councillors and officers - Roles and working relationships: are you getting it right? The report explored the respective responsibilities of councillors and officers in governance and how they work together to lead and manage their councils to deliver public services. The report found that in successful councils, councillors and senior managers share a strong public sector ethos and work well together to put their plans for the council area into action. Common features include clearly understood political and managerial structures, professional and constructive relationships between councillors and between councillors and officers, a shared commitment to council priorities, and constructive debate at council and committee meetings.
133. The local government elections in May 2012 saw the election of eight new members. Induction training for the new members was provided immediately following the election, with further panel specific training being provided following the summer recess. The council have adopted an induction plan for generic training for all new members, with returning members having further training requirements identified from the annual training analysis. All members receive a training needs analysis which leads to individual training and development plans.
134. There have been no changes to the CMT and, of the 12 heads of service, the only change during 2011/12 has been the appointment to the HR and Organisational Development post following the departure of the previous postholder. Further changes to the heads of service may arise during 2012/13 following consideration of the 'Raising our ambitions' report presented to council on 27th September. We will comment on the outcome of these changes in our 2012/13 annual report.

Complaints Handling Procedures (CHP)

135. The council's complaints procedure is available on its website. The three stage process involves a formal, informal and review procedure carried out through the Chief Executive's office. If the complainant is not satisfied with the response at the final stage, there is an opportunity to take the matter forward to the Scottish Public Services Ombudsman (SPSO). This can only happen where the council's complaints handling process has been followed. The SPSO require the council to move to a two stage process from 1 April 2013. Accordingly, the council submitted details of its proposed revised complaints handling procedure to the SPSO by the target date of 14th September. The SPSO has now responded with an assessment of the council's CHP. The SPSO assesses the council as having made significant progress towards compliance and notes that there is a clear and realistic plan for compliance by 31 March 2013.

Outlook

136. The Welfare Reform Act 2012 and its consequences will present considerable challenges to the council over the next few years. As part of our work on the 2012/13 audit, we will consider the council's preparedness for introduction of the changes and how it is developing and taking forward its strategies and plans to address the risks arising from the new arrangements.

Best Value, use of resources and performance

137. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
138. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
139. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
140. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
141. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
142. This section includes a commentary on the Best Value/ performance management arrangements within the South Ayrshire Council. We also note any headline performance outcomes/ measures used by the council and comment on any relevant national reports and the body's response thereto.

Management arrangements

Best Value

143. South Ayrshire Council received its first best value report in April 2009. The report highlighted the Accounts Commission's concerns regarding the council's limited progress in delivering best value and the council's financial position. A follow up review was subsequently carried out and a progress report published in June 2010. The Accounts Commission acknowledged the progress made by the council during 2009/10 and noted that many building blocks of best value were in place and that a culture of continuous improvement was developing. The

Accounts Commission noted, however, that many developments were still at an early stage and much still needed to be done.

Performance management

144. The council's computer based performance management system went live in April 2011. This represented a step change in providing officers and members with up to date performance information. The system provides monitoring information against the council's corporate and directorate plans, its 147 key performance indicators and the strategic risk registers. Reports are now regularly presented to council scrutiny panels. The use of the system to support performance management is becoming increasingly mainstreamed throughout service teams and as each cycle of reports is presented improvements and refinements are made in response to member and officer comments.
145. The council has developed an integrated performance management framework with the explicit objective of delivering continuous improvement for the people of South Ayrshire. The council's framework encompasses the following elements in a continuous feedback loop:
- the South Ayrshire planning hierarchy
 - the performance management system
 - self evaluation
 - reporting arrangements
 - scrutiny arrangements
 - resource planning
 - improvement and forward planning.

Integral to the framework is a recognition that success in meeting the council's objectives also depends on the nurturing of a culture of continuous improvement throughout the council at all levels of staff.

146. The council has adopted a self evaluation process based on "How Good is Our Council?". This "toolkit" is intended to support the overall self-evaluation process and to assist services and the council as a whole to evaluate how well it is doing in a rigorous, robust, systematic and consistent way. The model was introduced during summer 2011, and the findings from a high level corporate assessment were taken to the Corporate Management Team (CMT) in February 2012 however, to date, the findings have not yet been reported to members. Management agreed the key areas where improvements are required and this information will be used to consider what actions are required in the council's improvement plan and how the model should be rolled out across services.

Refer Action Plan No. 11

147. The 2010/11 Annual Report to Members noted that the council planned to pilot the toolkit in each directorate by June 2012 and develop a programme for full roll out by September 2012. The Children and Community Directorate is in the process of rolling out the model across its directorate and has adapted the toolkit for a number of its services. Information has been provided to staff on the purpose of the model as well as how to use it and how to validate the

findings. The CMT has still to consider how it plans to progress self evaluation across the remainder of council services.

Refer Action Plan No. 12

148. The previous external auditors commented that the council's service review programme required to be further developed in conjunction with budget activities and the new service review toolkit. Management has advised that the programme of service reviews continues to evolve. A toolkit has been developed for managers to support the review process which includes six high level self evaluation questions from "How Good is Our Council?". The service review programme is monitored and reported at directorate level, at CMT and through the joint trade union liaison group. Progress is also reported to members as part of budget reports.
149. The council has recently resolved to combine task and performance information against all the council's targets and aims into a single report. The first new style comprehensive annual performance report was submitted to the September meeting of the council. The report is well balanced and provides, as far as we are able to determine, a fair picture of the council's performance.
150. The council publishes a wide range of performance information on its website including departmental progress reports, single outcome agreement annual reports and performance indicator information.

Community/user engagement

151. The council agreed a communications strategy in May 2010. This strategy describes the importance of communication with residents but concentrates on the council delivering its messages with very little recognition of communication being a two way process. Notwithstanding, there is evidence of a significant amount of community consultation activity over the past year. Consultations have ranged over a number of issues including, for example; housing issues, tourism, local economy and parking. However, there is no formal, systematic and ongoing mechanism for engaging with the community in a wider sense, through for example a citizens' panel. Officers have advised that the South Ayrshire 1000 (the local Citizens Panel) is in operation again.

Refer Action Plan No. 13

Customer service

152. An updated customer service strategy was agreed in March 2011. It specifies face to face, telephone and online as being the three main channels for customer interaction. One of the key elements of the strategy is the council's commitment to the delivery of customer facing services from 'one-stop-shops' in the heart of the communities of Girvan, Maybole, Prestwick and Troon where residents can access information, assistance and advice on a wide range of council services. Work is to begin shortly on the transformation of the existing housing offices. In addition a completely new customer service centre will be opened in the Wallace Tower in Ayr. The anticipated timescale for the opening of the new one-stop-shops is mid-November.

Community planning and the Single Outcome Agreement (SOA)

Community plan

153. The Community Plan expired in 2010; this has not yet been revised. Officers have had a number of other priorities, many of which were a consequence of the poor Best Value report, to address during the period. Attention is now being turned to refreshing the Community Plan. Although there is no formally approved extension to the 2006-10 plan officers assert that the community planning SOA was the articulation of the partners' plans for the area. The partnership's intention is to have a new Community Plan in place by April 2013.

Refer Action Plan No. 14

Single Outcome Agreement (SOA)

154. South Ayrshire Community Planning Partnership (CPP) signed its first joint SOA (2009 – 2012) with Scottish Government in July 2009. The Community Planning Partnership prepared and issued a draft annual report to the Community Planning Board in August 2012.

155. Previous external auditors reported that the SOA was not fully developed due to incomplete baseline data. Targets included in the SOA were not specific but were often simply to "maintain" or "increase" performance. There were also issues with the collection of the data; as a consequence results were not available for all SOA indicators. In addition, for a number of indicators, it was not clear, whether movements represented positive or negative outcomes. There were also a number of indicators without specific targets. There has been no change to this position in 2011/12. The council is waiting for an announcement from the Scottish Government regarding the future format of SOAs. Once the government's position is clear, the council plans to review the SOA with partners and in light of the revised Community Plan. The council intends to ensure indicators are measurable.

Refer Action Plan No. 15

Overview of performance in 2011/12

South Ayrshire Council performance measurement outcomes

156. The annual performance report 2011/12 sets out the council's performance against the objectives set in the Corporate Plan for 2009-2012. Performance is reported under the seven key questions used in the "How Good is our Council?" self evaluation framework. Each key question has a number of key performance outcome criteria, totaling 63 over all seven key questions. Exhibit 11 summarises the results reported for 2011/12.

Exhibit 11: Key performance outcomes

| Assessment | Number | Percentage |
|--------------------------------|--------|------------|
| Completed | 0 | 0% |
| On target | 55 | 87% |
| Not on target - some concerns | 6 | 10% |
| Not on target - major concerns | 2 | 3% |
| Total | 63 | 100% |

Source: South Ayrshire Council: Annual performance report 2011/12

157. Examples of positive outcomes achieved in 2011/12 include:

- the completion of 167 affordable homes, 68 of which were built by the council
- increased numbers of young people participating in the Active Schools programme
- tonnage of household waste being collected for recycling increased through the introduction of fortnightly “blue bin” collection service
- improved levels of satisfaction recorded in the 2012 employee survey.

158. There were however a number of areas where results were behind target, including:

- redevelopment of town centres
- the percentage of operational accommodation in a satisfactory condition
- the proportion of council buildings in which all public areas are suitable and accessible to people with disabilities remains static.

159. Two key performance outcomes are recorded as being behind target with significant concerns. These are the performance on response repairs and the council’s community engagement strategy. Management have advised that the reason for the performance decline in response repairs was, to a significant extent, a consequence of the high winds during the winter of 2011/12. Community engagement is dealt with elsewhere in this report.

Statutory performance indicators

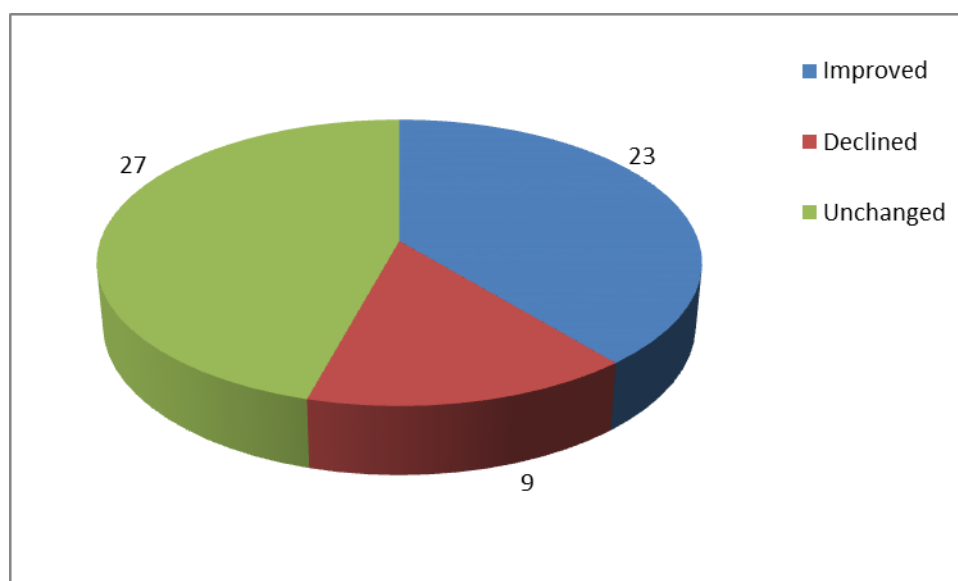
160. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). Each year we review the reliability of the council’s arrangements to prepare SPIs. The council’s Internal Audit section provided invaluable support in assessing the reliability of the arrangements for the preparation of the SPIs and auditing the submitted figures. External auditors have reported in previous years that data collection, retention, and data interpretation needed to improve to ensure performance information was reliable and accurate. It is disappointing to note that similar issues were encountered in 2010/11. The SPIs were eventually brought to a condition where they could be reported as reliable.

Refer Action Plan No. 16

161. In September South Ayrshire Council published, on its website, an annual report for 2011/12 listing 147 performance indicators, many of which had multiple parts. The published indicators included the 25 statutory performance indicators as designated by the Accounts Commission. SPIs provide a consistent form of measurement for councils to review their performance over

time and to make comparisons with other councils. Exhibit 12 provides an overall analysis of movement on SPIs as compared with 2010/11:

Exhibit 12: Movements on statutory performance indicators 2011/12



Source: South Ayrshire Council SPI data returns

- 162.** The analysis at Exhibit 12 is based on 59 components of the 25 SPIs. Some indicators show a marginal increase or decrease in performance. The above analysis assumes a +/- 5% tolerance margin in determining whether an indicator has improved, declined or remained unchanged.
- 163.** Examples of indicators of improving performance are:
- Sickness days lost per non-teaching staff has improved from 11.7 days in 2010/11 to 11.2 days in 2011/12 continuing a trend of improvement.
 - Gross administration costs per benefits case has decreased from £41.01 in 2010/11 to £39.69 in 2011/12.
 - Planning indicators, which display a continued improvement in performance.
 - The net cost of collection and disposal of waste per premise.
- 164.** Examples of indicators of declining performance are:
- response repairs being completed within target
 - library visit per 1,000 of the population declined further in 2011/12 continuing a trend noted over recent years.
- 165.** Overall the picture is positive, however, the corporate management team should be alert to the possibility that those SPIs displaying deterioration in 2011/12 represent the start of downward trends.

Refer Action Plan No. 17

National performance reports

166. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 13.

Exhibit 13: A selection of National performance reports

- | | |
|---|---|
| <ul style="list-style-type: none">• Managing Performance: are you getting it right?• Commissioning social care• The National Fraud Initiative in Scotland• An overview of local government in Scotland - challenges and change in 2012 | <ul style="list-style-type: none">• Reducing greenhouse gas emissions• The role of community planning partnerships in economic development• Modernising the planning system |
|---|---|

Source: www.audit-scotland.gov.uk

Managing Performance: are you getting it right?

167. The report (October 2012) concludes that managing performance is an area where all councils can improve. No single council has all the elements of a comprehensive performance management and improvement framework in place. One of the stated aims of the report is to stimulate discussion among councillors and officers and support change and improvement. The report is intended to support members and officers by signposting sources of information and guidance and includes checklists and other self-assessment tools.
168. The reports key message is that councils can improve how they manage performance and improvement. Prerequisites of effective management of performance include:
- Councillors need good-quality performance information to make well-informed decisions, scrutinise performance and identify areas for improvement.
 - Performance measures must reflect a council's priorities if it is to assure itself that its objectives are being met.
 - Managing performance is important for governance and accountability.
 - An effective performance management culture, led by both officers and councillors, is essential.
 - Performance information must be acted on to improve outcomes.
 - Self-evaluation and review activity form an important part of continuous improvement.
 - Councillors and officers need to ensure that the principles of effectively managing performance apply equally when working with partners.
169. Officers and members should consider the messages from the report and whether they can be usefully applied to South Ayrshire Council.

Maintaining Scotland's roads: a follow-up report

170. During the course of 2011/12 we reviewed the council's response to Maintaining Scotland's roads: a follow-up report; published by the Auditor General and the Accounts Commission in February 2011. The review provided an assessment of the progress that South Ayrshire Council had made in improving its management of road maintenance, focusing on road asset management planning, performance management and maximising value for money. We found that the council is taking steps to address the recommendations set out in the report. In particular that:

- the council is working to collate the necessary information to allow the lifecycle plans for each roads asset group to be completed
- the council has adopted the suite of performance indicators developed by SCOTS (Society of Chief Officers of Transportation in Scotland) to manage performance and that work is ongoing to ensure that the base data for all 'core' performance indicators is available
- the council demonstrates an on-going commitment to maximising value for money in its roads maintenance service through partnership working with neighbouring councils.

171. We concluded that council has responded to the recommendations of the report and there is evidence that it is making progress in improving its processes and practices in monitoring and addressing the condition of its roads network. The 2012/13 budget spend on carriageway maintenance is less than that required to maintain the council's roads in a 'steady state', as defined by SCOTS. However, as part of the revenue budget process the council allocated additional funding of £1 million, increasing the budget of planned structural maintenance for 2012/13 to £1.641 million. The council's capital planning is done on a three year basis. In our view, a key element to securing a planned improvement in the council's roads network is a long term investment strategy; this remains to be completed.

Refer Action Plan No. 18

Modernising the planning system

172. The Auditor General and the Accounts Commission published their report Modernising the planning system in September 2011. The audit aimed to assess whether recent reform and modernisation of the planning system was making it more economic, efficient and effective. It also sought to evaluate the overall progress made by the public sector in modernising the planning system and the impact that modernisation is having on councils' performance in managing planning applications. During 2011/12 we carried out a brief review to determine what impact the report had had in influencing the council's planning activities.

173. We found that the report and recommendations were considered as part of the council's Review of Development Management report which was already in progress when our report was published in September 2011. The council's review identified seven key actions to improve the delivery of services to stakeholders. The council's review was able to take into account the contents of the report in the context of its review of development management.

The role of community planning partnerships in economic development

- 174.** In November 2011 the Auditor General and the Accounts Commission published a report, The Role of Community Planning Partnerships in Economic Development. The audit focused on one policy area - community planning partnerships' contribution to local economic development. The report concluded that community planning partnerships needed to build on their economic development activity to help meet local needs and that partnerships should also make better use of available information and improve their understanding of the costs involved in delivering local economic priorities.
- 175.** The report was discussed at the Community Planning Implementation Group meeting in November 2011 where it was agreed that many of the key messages and recommendations could be taken on board by the Economic Development Partnership in the development of its new strategy and to improve governance, reporting and performance management mechanisms. It was also agreed that many of the key messages and recommendations could equally well be applied to other themes and governance structures within the community planning partnership and should be considered in the development of the new Community Plan and Single Outcome Agreement.

Progress against audit risks identified in the Shared Risk Assessment

- 176.** The Local Area Network conducted a shared risk assessment (SRA) reviewed progress in the attainment of the objectives in the Single Outcome Agreement. This assisted in the identification of future audit and scrutiny activity reported in the AIP. In summary, no significant scrutiny risks were identified by the LAN. This was an improved position from the previous AIP which reported significant risks in a number of areas.
- 177.** In many cases the AIP indicated that we would monitor key service developments and further evidence of performance and comment within this report. Previously in this report we commented on progress in respect of planning and resource alignment; partnership working; performance management; challenge and improvement; and, the use of resources. The following paragraphs note the position against the council's corporate plan themes. The council, together with its community planning partners, is responsible for evidencing performance and each partner will have varying degrees of influence over each area.

Corporate plan theme: Prosperous

- 178.** The council has clearly articulated objectives which are aligned with national outcomes. We recognise that external factors, principally the wider UK and global economies, will inevitably have an influence on whether they can be fully realized. The shared risk assessment concluded that key indicators had presented a mixed picture. From a review of the council's annual performance report the position remains much the same.
- 179.** A number of key performance outcomes indicate that the council and its partners are making considerable efforts to support business, enterprise and development. Improvements are recorded in, for example, tourism numbers, roads and planning.

180. In terms of employment in the local area figures published by Skills Development Scotland indicate that the job seekers allowance claimant count has, after the summer seasonal dip, resumed its upward path and, as at September 2012 stands at 4.6% which is an increase of 5.7% over the same month in 2011.

Corporate plan theme: Healthy and caring

181. In the AIP we commented that the effectiveness of the council and its partners' strategies can only be judged in the longer term and that a level of uncertainty on progress remained. The Scottish Public Health Observatory (ScotPHO) publish health and wellbeing indicators for each local authority area in Scotland. The most recent figures available, used in the preparation of the AIP, were those for 2010. There is, therefore, no update to the position as stated in the AIP.

182. The council and its partners continue to promote healthy lifestyles through increased opportunities for young people to participate in sport and the increased provision of cycle paths.

Corporate plan theme: Safe

183. The Community Safety Partnership has continued to deliver a range of initiatives aimed at reducing violence and antisocial behaviour. These include:

- increased participation of young people in a range of diversionary activities in targeted areas
- a reduction in the number of people killed and seriously injured in road traffic collisions
- a 21% reduction in the number of noise complaints received by the council.

Corporate plan theme: Learning and achieving

184. Based on information published by the Scottish Government in June 2012, over the three years to 2010/11 indicate that there was a slight improvement in the number of young people leaving school for a positive destination from 88% to 90%, which was above the national average. However, the percentage of young people leaving school and gaining employment decreased from 16% in 2008/09 to 14% in 2010/11 although this may have been due, at least in part, to the higher percentage leaving school for Higher Education which has increased from 36% to 39%.

Corporate plan theme: Clean and attractive

185. The council and its partners continue to make progress in this corporate plan theme. During 2011/12 167 affordable homes were completed in South Ayrshire, compared to none in 2010/11. Of these 41% were built by the council through two new build housing projects. A further 99 affordable homes were built across South Ayrshire by registered social landlords.

186. 2011/12 also saw a substantial increase in the proportion of council dwellings meeting the Scottish Housing Quality Standard (SHQS) from 59.3% to 73.1%. Full compliance with SHQS by 31 March 2015 is a key priority for the council and the progress in 2011/12 is a

considerable achievement, however, over a quarter of the housing stock remains to be brought up to standard in the remaining two years.

Progress on delivery of the council's best value improvement agenda

187. South Ayrshire Council received its first best value report in April 2009. A follow up review was subsequently carried out and a progress report published in June 2010. The Accounts Commission noted, however, that many developments were still at an early stage and much still needed to be done. The council prepared an improvement agenda to address the issues identified in the report. Management had been reporting progress to council; however, it is not clear when the last report to members was made.

Refer Action Plan No. 19

188. The latest update of the improvement agenda was for the period to 30 September 2011. At that time it was reported that of the 47 improvement actions, 40 were 50% or less complete. Two actions had been completed, 36 were assessed as being on target and the remaining nine were assessed as not being on target.

189. The council's strategic planning documents, corporate plan, community plan, single outcome agreement and the new "Raising our Ambitions" transformation programme, sets out the corporate objectives for South Ayrshire Council and set out a framework for the delivery of services. Individual service plans represent an important element of the council's corporate planning framework. Service plans incorporate the relevant key outcomes and priorities from the strategic plans and show how planned service outcomes link to the strategic objectives. A key element of service planning is the planning of financial and human resources required to deliver outcomes. The council has developed a template to link service objectives with budgeting but this requires further development to ensure clearer links with resource planning.

Refer Action Plan No. 20

Submission of payroll information to Strathclyde pension fund

190. Certain information must be submitted monthly by employers to the Strathclyde Pension Fund Office. The council is required to provide information on new starts and changes to conditions for existing members each month. The council has not performed well in this respect. For new starts no data was submitted to SPFO for nine out of 12 months of 2011/12 and for change notifications no data was submitted for 6 of the 12 months of 2011/12. As at 30 June 2012 SPFO reported that there were 49 missing new start records and 55 missing leaver records on its system in respect of South Ayrshire Council. (Source administration performance reports to [Strathclyde Pension Fund Committee](#)). Management should take action to ensure that information of the requisite quality is timeously submitted to SPFO.

Outlook

191. The long term and complex nature of many of the council and its partners' objectives and targets, pose many challenges for performance management. We recognise the challenges

and whilst we have no plans to audit single outcome progress reports, we will pay attention to the systems the council has in place to monitor progress and how it addresses performance issues.

192. There are currently no plans for any best value work in the council over the next three years. The AIP limits activity to a follow up review of the council's benefit system.
193. The Accounts Commission has developed an audit approach for the audit of Community Planning Partnerships. This approach is being piloted in the autumn of 2012 and will be rolled out across the sector thereafter.
194. In April 2011, the Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but integral to how public bodies operate. Following on from this the Scottish Government consulted on a set of 'specific duties' which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'general duty', including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013. We will consider progress made by the council in implementing these requirements as part our 2012/13 audit.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

| Title of report or opinion | Date of issue | Date presented to Audit Committee |
|--|-------------------|-----------------------------------|
| Annual Audit Plan | 10 February 2012 | 22 March 2012 |
| Shared Risk Assessment/Assurance and Improvement Plan | 30 May 2012 | 28 June 2012 |
| Annual Overview of Corporate Governance Arrangements | 25 June 2012 | 13 September 2012 |
| Maintaining Scotland's roads - follow-up review | 30 August 2012 | 13 September 2012 |
| Report on financial statements to those charged with governance | 18 September 2012 | 27 September 2012 |
| Audit opinion on the 2011/12 financial statements | 27 September 2012 | 27 September 2012 |
| Audit opinion on the 2011/12 Whole of Government accounts consolidation pack | 5 October 2012 | n/a |
| Report to Members on the 2011/12 audit | 31 October 2012 | November 2012 |

Appendix B: action plan

Key Risk Areas and Planned Management Action

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--|--|--|--|
| 1 | 22 | <p>Investment properties</p> <p>The council should review the non-current assets included in the balance sheet as "investment properties" to ensure that they have been classified in accordance with the Code.</p> <p>Risk</p> <p>Incorrect information presented in balance sheet.</p> | <p>A review of investment properties is planned to ensure that the classification is correct. Any required adjustments will be reflected in the 2012/13 accounts.</p> | <p>Chief Accounting Officer and Asset Co-ordinator</p> | <p>28 February 2013</p> |
| 2 | 30 | <p>Trust Funds</p> <p>The council should ensure that it has adequate arrangements in place for the audit of all its trust funds.</p> <p>Risk</p> <p>Statutory requirements are not met.</p> | <p>The majority of Trusts/bequests are dealt with either by External Audit or by OSCR (for those Trusts with charitable status) An appropriate independent review process will be considered for 2012/13 accounts.</p> | <p>Chief Accounting Officer</p> | <p>31 March 2013</p> |
| 3 | 47 | <p>HRA</p> <p>Officers and members should review the budget setting process to identify reasons for persistent underspending.</p> <p>Risk</p> <p>Approved level of services are not being delivered.</p> | <p>Areas of persistent underspending will be reviewed as part of the 2013/14 rent setting process to ensure that resources can be allocated appropriately.</p> | <p>Head of Community Care and Housing</p> | <p>31 March 2013 - annual thereafter</p> |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|--|---|---------------|
| 4 | 49 | <p>HRA</p> <p>The earmarked balance includes £1.500 million and further £0.550 million severe weather contingency. Officers and members should reconsider the earmarking of these amounts.</p> <p>Risk</p> <p>General reserve understated.</p> | The earmarked balance has been identified as part of the 30 year business plan and approved by Council. Consideration will be given to this matter as part of the 2013/14 rent setting process. | Head of Community Care and Housing | 31 March 2013 |
| 5 | 51 | <p>HRA</p> <p>Officers and members should consider how and when the projects, represented by the earmark reserve amounts will be delivered.</p> <p>Risk</p> <p>Continued accumulation of earmarked reserves without delivery of planned investment.</p> | Officers are currently reviewing the level of earmarked reserves and how the delivery of these projects will assist in the achievement of the SHQS. | Head of Community Care and Housing | 31 March 2013 |
| 6 | 63 & 65 | <p>Capital programmes</p> <p>The capital programmes for 2012/13 have been supplemented by slippage brought forward from 2011/12.</p> <p>Risk</p> <p>The council's approved capital investment programme is not delivered.</p> | <p>The Strategic Capital Group are reviewing the project delivery monitoring and the resources required to ensure that the 2012/13 programmes can be delivered.</p> <p>Outcome to be considered by Executive Officers Group.</p> | Head of Property and Neighbourhood Services | 31 March 2013 |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|---|---|---|
| 7 | 77 | <p>Asset management</p> <p>The council's capital planning is currently done on a short term basis. The council should integrate its asset management plans with a long term investment strategy.</p> <p>Risk</p> <p>Investment in assets is not compatible with the council's corporate objectives.</p> | Officers are currently developing a 5 year capital plan, aligned to the corporate asset management plan. | Head of Property and Neighbourhood Services | 31 December 2012 |
| 8 | 88 | <p>Procurement</p> <p>The council should continue to develop its procurement arrangements.</p> <p>Risk</p> <p>Council does not obtain the benefits of improved procurement.</p> | The Council will continue to develop its procurement arrangements through development and delivery of the organisational Procurement Strategy and Procurement Improvement Plan. | Head of Corporate Resources | Ongoing |
| 9 | 111 | <p>Oracle</p> <p>Implementation of the various Oracle modules has been slow.</p> <p>Risk</p> <p>Planned efficiencies and improved working practices are not achieved.</p> | <p>Considerable progress has been made in implementing Oracle in the past 12 months. The roll out of Oracle P2P will be completed by June 2013. That will complete the dependency on CFACs. All other interfaces have been removed or will be phased out by June. A technical upgrade to R12 is currently planned to bring it onto a modern platform.</p> | <p>Head of Policy, Performance and Communication</p> <p>Head of Policy, Performance and Communication</p> | <p>30 June 2013</p> <p>30 June 2013</p> |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|---|--|--|
| | | | A dedicated resource is now deployed to develop the Oracle HR module, which has resulted in significant progress. As well as providing comprehensive workforce information, the system will be developed to include self-service functions at an appropriate point in the overall scheduling. Once the Oracle R12 upgrade is complete, the same resource will also progress development of the Oracle Payroll module as a direct replacement for our current Cyborg system. | Head of Policy, Performance and Communication Head of HR and Organisational Development | 31 August 2013 HR - December 2013 Payroll - March 2017 |
| 10 | 128 | <p>Welfare reform</p> <p>The council should continue to monitor developments and develop strategies in this area to ensure that it is prepared to address the risks arising from these changes.</p> <p>Risk</p> <p>The council's lacks developed capacity to support residents through the changes.</p> | The implications of Welfare Reform are being addressed through a corporate working group and monitored against a delivery plan. | Executive Director - Corporate Services | Ongoing |
| 11 | 146 | <p>Self evaluation</p> <p>Results of the high level self evaluation exercise has not been reported to members.</p> | The corporate self-evaluation exercise will be refreshed and reported to members prior to summer recess. | Head of Policy, Performance and Communication | 30 June 2013 |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--|---|--|--|
| | | <p>Risk</p> <p>Members are unaware of the actions required for improvement.</p> | | | |
| 12 | 147 | <p>Self evaluation</p> <p>A toolkit for service self evaluation has been prepared but not yet rolled out across all services.</p> <p>Risk</p> <p>Delayed identification of the actions required for improvement.</p> | The toolkit has been rolled out across Children and Community Directorate and will be rolled out to all services by summer recess. | Head of Policy, Performance and Communication | 30 June 2013 |
| 13 | 151 | <p>Community Engagement</p> <p>The council should consider introducing a formal and systematic mechanism for engaging with the community.</p> <p>Risk</p> <p>Failure to engage appropriately with the community.</p> | <p>South Ayrshire 1000 (the local Citizens Panel) is currently running and the outputs will be reported in the New Year.</p> <p>A community engagement pilot is due to finish in the coming six months which will help inform the way forward.</p> <p>Engagement is planned on strategic priorities due to be reported in Spring.</p> | <p>Head of Policy, Performance and Communication</p> <p>Head of Policy, Performance and Communication</p> <p>Head of Policy, Performance and Communication</p> | <p>28 February 2013</p> <p>30 June 2013</p> <p>30 April 2013</p> |
| 14 | 153 | <p>Community Plan</p> <p>The Community Plan expired in 2010; this has not yet been revised.</p> <p>Risk</p> <p>Community Planning Partnership is unclear</p> | The development of a new plan has been the subject of extensive discussion at the Community Planning Board and a new plan is expected to be in place by April 2013. | Head of Policy, Performance and Communication | 30 April 2013 |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--|---|---|------------------|
| | | about the strategy to be followed. | | | |
| 15 | 155 | <p>Single Outcome Agreement</p> <p>Some targets included in the SOA are imprecise and baseline data remains incomplete.</p> <p>Risk</p> <p>The Community Planning Partnership lack clear information on outcomes.</p> | <p>A new Single Outcome Agreement is under development and will be shaped by the new Community Plan. Guidance from Government is awaited. Subject to that being received during November, the new SOA will be in place by April 2013. That provides the opportunity to revisit targets.</p> | Head of Policy, Performance and Communication | 30 April 2013 |
| 16 | 160 | <p>Statutory Performance Indicators</p> <p>The council should ensure that it has robust arrangements in place for compiling performance indicators and ensure that adequate information is available in support of the indicators.</p> <p>Risk</p> <p>Inaccurate reporting of performance.</p> | <p>We will review the process surrounding SPI information and provide clear guidance to officers on requirements.</p> | Head of Policy, Performance and Communication | 31 August 2013 |
| 17 | 165 | <p>Statutory Performance Indicators</p> <p>SPIs displaying significant deterioration in 2011/12 should be investigated to ensure that the service is being maintained.</p> | <p>This work is already underway and will report to EOG this year.</p> | Head of Policy, Performance and Communication | 31 December 2012 |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--|---|---|------------------|
| | | <p>Risk</p> <p>Uncorrected decline in quality of service delivery.</p> | | | |
| 18 | 171 | <p>Roads maintenance</p> <p>The council should prepare and implement a long term investment strategy.</p> <p>Risk</p> <p>Roads network declines in quality.</p> | <p>The Roads Asset Management Plan is the driver for establishing an effective Road Improvement Plan and will inform investment priorities that are likely to contribute to economic growth and improved quality of life.</p> | Roads Manager | 31 October 2013 |
| 19 | 187 | <p>Best Value improvement agenda</p> <p>Management should update the position and report to members.</p> <p>Risk</p> <p>Agreed improvement actions are not completed.</p> | <p>Reporting on the Improvement Agenda has been integrated into general performance reporting but we will ensure that all outstanding Improvement Agenda actions are incorporated within reporting on Raising Our Ambitions and within general performance reporting.</p> | Head of Policy, Performance and Communication | 31 December 2012 |
| 20 | 189 | <p>Best Value improvement agenda</p> <p>Linkages between service plans clear and strategic plans need to be made clearer. This will be key to the success of Raising our Ambitions.</p> <p>Risk</p> <p>Corporate objectives are not delivered.</p> | <p>Raising our Ambitions sets out draft strategic priorities which will be the subject of consultation and which will inform the new Community Plan, SOA, Council business plan and feeding down into service and team plans.</p> | Head of Policy, Performance and Communication | 30 June 2013 |